

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE  
AUDIT OFFICE

TM



CALIFORNIA PLUM MARKETING BOARD &  
CALIFORNIA TREE FRUIT MARKETING BOARD

AUDIT REPORT #08-084

CALIFORNIA PLUM MARKETING BOARD &  
CALIFORNIA TREE FRUIT MARKETING BOARD

AUDIT REPORT

---

---

AUDIT STAFF

Ron Shackelford, CPA  
Shakil Anwar, CPA  
Evelyn Yee, CPA  
Melma Dizon

Audit Chief  
Assistant Audit Chief  
Audit Supervisor  
Auditor

AUDIT REPORT NUMBER

08-084

**TABLE OF CONTENTS**

	<u>PAGE</u>
AUDITOR’S REPORT .....	1
GENERAL BACKGROUND .....	3
EXECUTIVE SUMMARY .....	3
KEY RECOMMENDATIONS .....	5
REPORTABLE FINDINGS .....	6
Credit Card Expenses .....	6
Expense Claims .....	7
Employee Incentives and Other Questionable Expenses .....	9
Employee Auto Allowances.....	10
Internal Control Weaknesses in Contracts .....	11
Internal Control Weaknesses in Research Grant Contracts .....	11
CALIFORNIA PLUM MARKETING BOARD’S AND CALIFORNIA TREE FRUIT MARKETING BOARD’S RESPONSE .....	13
CDFA EVALUATION OF RESPONSE.....	20
DISPOSITION OF AUDIT RESULTS.....	21
REPORT DISTRIBUTION .....	22

Mr. Robert Maxie, Branch Chief  
Marketing Services  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, California 95814

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the Audit Office to perform a limited scope fiscal and compliance audit of California Plum Marketing Board (CPMB) and California Tree Fruit Marketing Board (CTFMB.) The objective of this audit was to determine whether certain activities and expenditures incurred by both marketing boards comply with the law and are within Board authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the Marketing Boards' financial records.

The audit scope was limited by the Marketing Branch as it related to certain expenditures. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

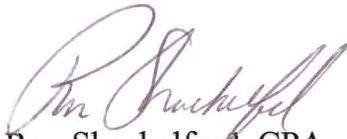
Furthermore, our audit scope was limited to the fiscal years 2006, 2007, and 2008. Although the scope was limited to these three years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, reviewing of the Marketing Boards':

- Compliance with various rules and regulations
- Employee and Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts
- Research grants
- Payroll documents

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and the Marketing Boards and should not be used for any other purpose.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA  
Chief, Audit Office  
(916) 651-8774

## GENERAL BACKGROUND

Our office focused on performing a fiscal and compliance audit of only the two State marketing programs, the California Plum Marketing Board (CPMB) and the California Tree Fruit Marketing Board (CTFMB). However, the California Tree Fruit Agreement's (Agreement) practice of posting all expenses to one Agreement holding account and subsequently allocating and splitting costs among the two State and two Federal marketing programs required us, in many instances, to review the entire expense and cost in totality for appropriateness, not just the portion that was eventually allocated to the State marketing programs.

For the audit period, the number of marketing programs under management of the Agreement expanded from three to four. From March 1, 2005 through March 31, 2007, the Agreement managed three marketing programs: the CPMB and two Federal marketing programs. From April 1, 2007 through current, the Agreement managed four marketing programs: the CPMB, CTFMB, and the two Federal marketing programs. All are separate entities from each other and have separate financial records, bank accounts, and annual independent financial audits.

Each entity separately contracted with the Agreement, on an annual basis, for "general management and administrative services." According to the contracts, the services included, but were not limited to, day-to-day management of the business affairs, such as advertising, promotion, market development, research, etc.

## EXECUTIVE SUMMARY

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the CPMB and the CTFMB to determine whether certain activities and expenditures incurred comply with the law and are within Board authority. In order to accomplish this, our primary focus was the Marketing Boards' expenses and compliance with various rules and regulations.

As of December 2008, the two State Boards examined are part of the Agreement. The Agreement consists of the following State and Federal marketing programs:

1. The California Plum Marketing Board (CPMB), a State Marketing Order
2. The California Tree Fruit Marketing Board (CTFMB), a State Marketing Order
3. The Peach Commodity Committee (PCC), a Federal Marketing Program
4. The Nectarine Administrative Committee (NEC), a Federal Marketing Program

Although our office audited only expenses related to the two State Marketing Orders, (the CPMB & the CTFMB) the Agreement's accounting practice of posting all expenses to an

Agreement holding account within its general ledger and subsequently allocating all costs among the four organizations caused us to review all costs incurred by the Agreement for the audit period.

Based on our audit for the three-year period, the following administrative weaknesses were noted:

- An examination of expenses incurred by employees on the Agreement's credit cards identified that all expenses were not fully supported with detailed receipts. It does not appear these expenses were thoroughly reviewed for appropriateness prior to payment.
- An examination of reimbursements made to employees by operating checks and other expenses paid by operating checks noted instances where expenses were not fully supported by invoices or detailed receipts. Additionally, our office noted payments for alcohol, employee incentives, and personal expenses, which do not appear to further the Marketing Boards' mission. State law requires public money be used to further a department's mission.
- Our office noted the Agreement was inconsistent in the method for providing auto allowances. The Agreement paid four employees auto allowances; however, two employees reported the entire auto allowance as taxable income since they did not maintain a mileage log, while the remaining two maintained a mileage log and were exempt from reporting the auto allowance as income. Furthermore, the Agreement was unable to provide us with supporting documentation demonstrating how the auto allowances were determined and the reasonableness of the rates.
- Three employees, who received an auto allowance, were also reimbursed 50% of their gas expenses. This practice was stopped in FY 2007/08. Our office noted the amount paid as a gas benefit was not reported on the employees' IRS Form W-2, as additional income.
- Marketing and data services secured by the Agreement were paid without a written contract. A written agreement outlining the terms of performance, payment, and scope of services would improve internal controls by mitigating any possible disputes between the two parties. Additionally, our office noted that the Agreement could not provide documentation demonstrating a competitive bidding effort occurred or provide justification for not seeking competitive bids for several service contracts.
- The Agreement, acting as an agent for the CPMB, does not have full accountability over its research grants. The funding paid to researchers is based on an invoice, and the final payment is paid when the final research report is completed. The Agreement does not require the grantees to provide progress reports or a final accounting over the grant money awarded them. Timelier oversight by the Agreement would help ensure that the all amounts paid for research were used for their intended purposes.

### KEY RECOMMENDATIONS

1. *The Marketing Boards should ensure the Agreement improves its internal controls over the business use of credit cards by its employees.*
2. *The Marketing Boards should ensure the Agreement requires its employees with the Agreement issued credit card to support all charges incurred with an itemized receipt. The receipt should be maintained within the credit card file. Charges for lodging or meetings should include documentation listing the guests who attended and the business purpose of the event.*
3. *The Marketing Boards should require the Agreement to obtain itemized receipts for all expenses, including business meals, to ensure expenses are adequately supported. Documentation for business meals should list the guests who attended and the business purpose of the meal.*
4. *The Marketing Boards should ensure the Agreement thoroughly reviews expenses prior to payment, to avoid potential overpayments. Additionally, employee expense claims should be thoroughly reviewed to ensure the claim complies with the travel policy prior to reimbursement. Furthermore, policies should be in place to ensure an employee does not sign their own check.*
5. *The Marketing Boards should ensure the Agreement, on their behalf, only incurs expenses necessary to support their mission. Personal expenditures should not be allowed in any instances.*
6. *The Marketing Boards should determine the amounts spent on personal expenses by employees and seek reimbursement for these amounts.*
7. *The Agreement should seek the necessary professional guidance to ensure it is properly reporting and documenting all expenses incurred by its employees for the business use of their automobile.*
8. *The Agreement should document the basis it used to determine the monthly auto allowance amounts it provides to its employees.*
9. *The Marketing Boards should ensure the Agreement has written contracts for all services. The written contract should identify the parties involved; outline the terms for performance, payment, and scope; and be signed by both parties to mitigate any disputes.*
10. *The Marketing Boards should ensure service contracts are competitively bid in compliance with the public contracts code.*
11. *The CPMB should ensure the Agreement improves its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*



## REPORTABLE FINDINGS

## CREDIT CARD EXPENSES

Credit card purchases did not always have the supporting documentation necessary to support and/or justify the expense. For the audit period, the Agreement issued two separate credit cards to each of its two managers for business related expenses. All expenses incurred on the credit cards were paid in full by the Agreement, with all related costs eventually allocated to the various Marketing Boards. The Marketing Boards did not have a written policy regarding the use of the Agreement credit cards.

For the three-year period audited, our office noted 134 instances totaling \$30,582 of \$250,560, or 12.2% of expenses charged to the credit cards that were not adequately supported with any receipts and/or justifications. The State Marketing Boards were allocated a total of \$8,242 of the \$30,582 in expenses, which were not adequately supported. **Table 1** further indicates the categories of the unsupported credit card expenses.

**Table 1**

<b>CDFA Audit of the California Plum Marketing Board and California Tree Fruit Marketing Board Summary of Credit Card Charges without Supporting Documentation For the Period March 2005 - February 2008</b>							
<b>Cardholder</b>	<b>Food &amp; Beverage</b>	<b>Hotels &amp; Airfare</b>	<b>Conferences/ Meetings</b>	<b>Office Supplies</b>	<b>Other</b>	<b>Total for Agreement</b>	<b>Total Allocated to Marketing Boards</b>
Employee A	\$ -	\$ 7,609	\$ 5,920	\$ 2,705	\$ 6,205	\$ 22,439	\$ 4,930
Employee B	91	5,620	966	34	1,432	8,143	3,312
<b>Totals</b>	\$ 91	\$ 13,229	\$ 6,886	\$ 2,739	\$ 7,637	\$ 30,582	\$ 8,242

Without adequate supporting documentation, our office cannot determine whether the charges noted in **Table 1** were reasonable, appropriate, or business related. Additionally, we are unable to determine whether these expenses were thoroughly reviewed for appropriateness prior to payment.

*Recommendations*

- 1. The Marketing Boards should ensure the Agreement improves its internal controls over the business use of credit cards by its employees.*
- 2. The Marketing Boards should ensure the Agreement requires its employees with the Agreement issued credit card to support all charges incurred with an itemized receipt. The receipt should be maintained within the credit card file. Charges for lodging or meetings should include documentation listing the guests who attended and the business purpose of the event.*

**EXPENSE CLAIMS**

An examination of operating checks issued by the Agreement to employees for the reimbursement of claimed expenses identified that not all reimbursements were supported by invoices or receipts despite the Agreement's Employee Handbook stating, "An employee who wishes to be reimbursed for an expense, receipts should be used for verification purposes for any expenditure above \$25."

For the audit period, our office reviewed \$343,716 in employee reimbursements. Due to the sheer volume and number of individual transactions, our audit of these reimbursements was made primarily of expenses claimed by two employees. Of these, we noted a total of \$130,478 (38%) of the \$343,716 was not supported with any documentation. The amount of unsupported expenses allocated to the State Marketing Boards was \$39,995 of the \$130,478 (31%).

It is important to note that included in the amount considered as unsupported is \$112,420, which represents Employee A's claimed reimbursement for all of FY 2006/07. Our office requested Employee A's FY 2006/07 expense file for our review. However, the Agreement was unable to locate the file for us to review, as of the end of our fieldwork date. The \$112,420 was comprised of 16 Agreement checks paid to Employee A ranging from \$114 to \$17,353. Our office noted seven of the checks were for more than \$5,000. The Agreement acknowledged having the file in its possession as of April 2007 and provided documentation indicating their independent auditors selected one of Employee A's reimbursements for review when conducting the 2006/07 financial audit. However, after April 2007, the Agreement has been unable to locate the file upon other auditors' request. The Agreement made an effort to recreate Employee A's expense reports; however, receipts were not provided and this amount still remains unsupported. Furthermore, additional checks were written to Employee A in the amount of \$1,942 in 2005/06 which brings the total unknown classification of these expenses to \$114,362 (see Table 2). Our Office has summarized the unsupported employee reimbursement expenses in **Table 2**:

Table 2

CDFA Audit of the California Plum Marketing Board and California Tree Fruit Marketing Board Summary of Employee Reimbursements without Supporting Documentation For the Period March 2005 - February 2008									
		Food &		Equipment/	Business			Total for	Total Allocated
Employee		Airfare	Beverage	Software	Entertainment	Other	Unknown	Agreement	to Marketing Boards
Employee	A	\$12,276	\$ 2,245	\$ 927	\$ 162	\$ 85	\$114,362	\$ 130,057	\$ 39,614
Employee	B	-	32	-	-	389	-	421	381
Totals		\$12,276	\$ 2,277	\$ 927	\$ 162	\$ 474	\$114,362	\$ 130,478	\$ 39,995

A further examination of the financial activity and accounting records related to the \$112,420 identified further internal control weaknesses. The Agreement provided copies of 15 out of the 16 reimbursement checks written to Employee A in FY 2006/07, along with bank statements to confirm the checks cleared the bank account. All but one cancelled check totaling \$14,661 was provided. The Agreement provided the bank statement to confirm this check cleared the bank account. Our office noted that two of the 15 checks, totaling \$28,662, to Employee A were signed by Employee A. When an employee signs his or her own check, there is no assurance the reimbursement claim was adequately reviewed for appropriateness prior to payment. Based on the Agreement's general ledger, \$32,263 in expenses related to the \$112,420 was allocated to CPMB. The CTFMB was not in existence at this time, as it was formed in FY 2007/08.

When receipts were provided, we noted instances when additional information was needed since the detail was not sufficient. For instance, we noted the Agreement did not readily have available a listing of the recipients of the meals, the business purpose for those meals, and the itemized receipt for restaurant charges. In other instances, the employee's own monthly credit card statement was provided in lieu of an itemized receipt, when seeking reimbursement for an expense. Without an itemized receipt or a receipt that clearly identifies the items or services purchased, which provides transparency to the nature of the expense, our office cannot attest to the reasonableness of the expenditure. Other weakness and possible overpayments our office identified during our audit of expenses for the Agreement are specified below:

- Our office noted at least three instances when hotel rates were more than three times the state rate. These three hotels were in California and the rates ranged from \$275 to \$440 per night. According to the Agreement's Employee Handbook, government rates are to be used "if and when available;" however, if at a conference or meeting,

“it is acceptable to secure conference-based rates for accommodations,” when the hotels do not honor government rates.

- An employee appeared to have been reimbursed for an expense that was already charged to the Agreement’s corporate credit card and subsequently paid by the Agreement in the amount of \$227. According to the credit card statement, an employee purchased an item for \$227 from a store. The credit card receipt was later attached to an employee’s expense claim and the amount was reimbursed to the employee. The receipt had the corporate credit card number on it. Based on this information it appeared that the employee was improperly reimbursed.
- There were two instances when an employee personally paid for airline tickets and subsequently received reimbursement for these tickets through the employee’s expense claim. However, the employee did not travel on these flights. In both instances, we requested additional information from the Agreement, and the Agreement was unable to determine if the flights were credited and applied to another flight. In one instance, the Agreement indicated the flight was canceled. In the second instance, two booked flights overlapped, and the employee only went on one of the two flights. Without additional information, we are unable to determine if the expense claim reimbursement was proper.

#### *Recommendations*

3. *The Marketing Boards should require the Agreement to obtain itemized receipts for all expenses, including business meals, to ensure expenses are adequately supported. Documentation for business meals should list the guests who attended and the business purpose of the meal.*
4. *The Marketing Boards should ensure the Agreement thoroughly reviews expenses prior to payment, to avoid potential overpayments. Additionally, employee expense claims should be thoroughly reviewed to ensure the claim complies with the travel policy prior to reimbursement. Furthermore, policies should be in place to ensure an employee does not sign their own check.*

### **EMPLOYEE INCENTIVES AND OTHER QUESTIONABLE EXPENSES**

The Agreement paid for expenses justified as employee incentives totaling at least \$9,900. These incentives included, but were not limited to, movie gift certificates, birthday cakes, staff lunches, and staff holiday parties, which included alcohol. The portion of employee incentives allocated to the Marketing Boards was \$4,582 and does not appear to be in the best interest of the State. According to the Agreement, they no longer provide employee incentives as of April 2008.

Second, we identified alcohol purchases for Board members, clients, and employees totaling at least \$2,450, of which \$1,193 was allocated to the Marketing Boards. These alcohol purchases did not appear to be in the best interest of the State. It should be noted that a portion of the alcohol purchased was included and already identified in the total for the employee incentive since part of the alcohol was served at a holiday staff event.

Third, we identified expenses totaling at least \$1,519, which appear personal in nature, such as in-room movies, spa treatments, health clubs, pet fees at hotels, and annual airline club memberships. The allocation was \$405 to CPMB. Regardless of the dollar amount, personal expenditures may be considered gift of public funds.

*Recommendations*

5. *The Marketing Boards should ensure the Agreement, on their behalf, only incurs expenses necessary to support their mission. Personal expenditures should not be allowed in any instances*
6. *The Marketing Boards should determine the amounts spent on personal expenses by employees and seek reimbursement for these amounts.*

**EMPLOYEE AUTO ALLOWANCES**

The Agreement has an auto allowance program. During our audit period, four employees received a monthly auto allowance ranging from \$595 per month to approximately \$900 per month although two of the employees did not keep sufficient records to substantiate the business need of this allowance. Without supporting documentation, these employees reported the entire auto allowance as taxable income, which was between 3.5% and 5.4% of their total income. The other two employees maintained sufficient travel logs justifying an exemption of reporting the allowance as income per the IRS guidelines.

In addition, three of the four employees, noted above, were also reimbursed for 50% of gas purchased in FY 2005/06, and FY 2006/07. The Agreement stopped the practice of reimbursing its employees for gas expenses in FY 2007/08. One employee would seek a reimbursement from the Agreement with an expense claim by only providing a gas receipt. This employee did not maintain any travel logs to justify the gas reimbursement. The other two employees would use the corporate Voyager gas card. Subsequent to the Agreement's payment of the Voyager gas card, the Agreement would invoice the employees 50% of their gas expense on the Voyager card. Although these two employees tracked the number of miles driven on a spreadsheet, there was no reconciliation performed between the numbers of business miles driven versus the amount of gas purchased on the Voyager card. Without this support, again we are unable to determine the reasonableness of the 50% of the gas the Agreement paid. The total reimbursed for the three employees in gas expenses in addition to their auto allowances for both years was approximately \$8,300, whereas approximately \$1,900 in expenses was allocated to the State Marketing Boards. The Agreement's payroll records show that none of the three employees reported the reimbursement of gas expenses as taxable income. Once again, the gas reimbursement policy has been terminated.

According to the Agreement's Employee Handbook, "vehicle allowances are allowed for those employees who spend a substantial amount of time interacting with industry members outside of" the Agreement's office. The policy appears vague and does not explain how the monthly auto allowance was determined. The Agreement stated the mileage rate was an industry standard; however, they were unable to provide us with any supporting documentation demonstrating how the monthly auto allowance amounts were determined and the reasonableness of the rates.

*Recommendations*

7. *The Agreement should seek the necessary professional guidance to ensure it is properly reporting and documenting all expenses incurred by its employees for the business use of their automobile.*
8. *The Agreement should document the basis it used to determine the monthly auto allowance amounts it provides to its employees.*

**INTERNAL CONTROL WEAKNESSES IN CONTRACTS**

During our review of vendor invoices and the IRS Form 1099-MISC, which reports miscellaneous income, we noted a vendor was paid a total of \$573,361 for marketing and data services without a written contract. Our office noted an earlier contract between the vendor and the Agreement for the period November 1, 2004 through December 31, 2005. After the initial contract expired, the financial arrangement between both parties was based on verbal agreements. Of the \$573,361, \$122,715 was allocated to the Marketing Boards, \$57,495 in FY 2006/07 and \$65,220 in FY 2007/08. Without a written contract, the Marketing Boards expose themselves to loss as disputes may arise between parties as to scope of work, performance, and terms and conditions related to payment.

Our office also noted that the Agreement did not provide documentation demonstrating a competitive bidding effort occurred or the reason for not seeking competitive bids for a few of its service contracts, such as for the marketing and data services, previously mentioned. Additionally, we noted other contracts, which included, but were not limited to, two market representatives who were paid between \$72,625 and \$78,943 based on their 2005 IRS Form 1099s and a data gathering service which was paid \$28,675 in 2005, \$43,360 in 2006, and \$51,705 in 2007 based on IRS Form 1099s.

*Recommendations*

9. *The Marketing Boards should ensure the Agreement has written contracts for all services. The written contract should identify the parties involved; outline the terms for performance, payment, and scope; and be signed by both parties to mitigate any disputes.*
10. *The Marketing Boards should ensure service contracts are competitively bid in compliance with the public contracts code.*

**INTERNAL CONTROL WEAKNESSES IN RESEARCH GRANT CONTRACTS**

All research contracts examined were between the researcher and the Agreement. The research expense allocation is dependent on the crops that benefit from the research. The allocation is to three entities, two of the Federal Marketing Boards and the CPMB. None of the CTFMB's resources are used to fund research. Based on the general ledger, CPMB's portion of the research expense ranged between \$52,520 and \$102,689 annually to various organizations. Based on our analysis of the research grants provided, our office noted that, at least for the State's portion of the grant, a detailed final accounting of the grant money awarded to the organizations was not required by the Agreement. Instead, the researchers

provided an invoice to the Agreement with the balance due to researchers. We noted these invoices do not have sufficient detail as to how the grant money was spent. The invoices only indicated the award amount and the balance due from Agreement, which was usually 25% of the grant.

The CPMB should hold the grantees more accountable for the funds awarded, to ensure the funds are used solely for the intended purpose. Although a budget is included in the grant contract, the CPMB should not rely only on the budget presented to account for final expenses, since the actual expenditures incurred could vary significantly from the budgeted amount. Our office recommends the CPMB require grantees to provide progress reports and a final accounting for the grant funds awarded to them. Progress reports are useful analytical tools that provide supplementary information regarding the status of the grant projects and could possibly identify any potential concerns or questions the CPMB may have. In addition, a final accounting of actual expenses would allow the CPMB to determine whether use of the grant award was for the intended purpose and whether any grant money remained unspent. Ultimately, these reports will improve internal controls by providing more transparency over expenditures incurred by the researchers.

*Recommendation*

- 11. The CPMB should ensure the Agreement improves its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*

**CALIFORNIA PLUM MARKETING BOARD'S AND CALIFORNIA TREE FRUIT  
MARKETING BOARD'S RESPONSE**





May 11, 2009

Mr. Ron Shackelford, CPA  
State of California  
Department of Food and Agriculture  
Audit Office  
1220 N. Street, Room 344  
Sacramento, CA 95814

Dear Mr. Shackelford

CTFA has completed the audit responses to the recent CA Plum Marketing Board and CA Tree Fruit Marketing Board fiscal audit. We have enclosed a copy of our responses in this correspondence.

CTFA has also updated their policy manual to include the recommendations provided. We plan to have approved by our Executive Committee in June 2009.

Please let me know if you would like to discuss or have any additional questions.

Sincerely,

Sheri Mierau  
President, CA Tree Fruit Agreement

Executive Summary

Based on our audit for the three-year period, the following administrative weaknesses were noted:

- An examination of expenses incurred by employees on the Agreement's credit cards identified that all expenses were not fully supported with detailed receipts. It does not appear these expenses were thoroughly reviewed for appropriateness prior to payment.
  - a. We have addressed these concerns in our updated policy manual that will be presented to the Executive Committee June 17, 2009 for approval.
  - b. Receipts were required for reimbursement: itemized receipts had not been required.
  - c. Agreement issued credit cards will be held by the CEO or locked in the accounting department safe. A credit card log will be maintained.
- An examination of reimbursements made to employees by operating checks and other expenses paid by operating checks noted instances where expenses were not fully supported by invoices or detailed receipts. Additionally, our office noted payments for alcohol, employee incentives, and personal expenses, which do not appear to further the Marketing Boards' mission. State law requires public money be used to further a department's mission.
  - a. We have addressed these concerns in our updated policy manual that will be presented to the Executive Committee June 17, 2009 for approval
  - b. Prior to November 2008, CDFA had not made the Agreement aware of any alcohol related policies.
  - c. Employee incentives included 2 staff functions per year, both approved by the Executive Committee each year, at meetings where oversight was provided by the Marketing Branch. The performance related incentives were ceased in April 2008.
- Our office noted the Agreement was inconsistent in the method for providing auto allowances. The Agreement paid four employees auto allowances; however, two employees reported the entire auto allowance as taxable income since they did not maintain a mileage log, while the remaining two maintained a mileage log and were exempt from reporting the auto allowance as income. Furthermore, the Agreement was unable to provide us with supporting documentation demonstrating how the auto allowances were determined and the reasonableness of the rates.
  - a. The Boards' bylaws provide for a mileage rate as established by the IRS on a yearly basis or as recommended by the Executive Committee. The Chairperson of the Executive Committee will sign a document outlining any approvals the Committee makes. This document will be filed appropriately by the Controller.
  - b. For clarity, the two individuals that did not provide a mileage log were subject to income tax applied to the automobile allowance and/or were responsible for reporting appropriately on their IRS tax forms.
- Three employees, who received an auto allowance, were also reimbursed 50% of their gas expenses. This practice was stopped in FY 2007.08. Our office noted the amount paid as a gas benefit was not reported on the employees IRS Form W-2, as additional income.

- a. This practice was stopped in February 2007. Based on mileage logs and IRS guidelines, car allowances were adjusted to meet the IRS mileage rate at that time. This eliminated any additional mileage/gas reimbursements from occurring.
  - Marketing and data services secured by the Agreement were paid without a written contract. A written agreement outlining the terms of performance, payment, and scope of services would improve internal controls by mitigating any possible disputes between the two parties. Additionally, our office noted that the Agreement could not provide documentation demonstrating a competitive bidding effort occurred or provide justification for not seeking competitive bids for several service contracts.
    - a. At the time of hiring data service providers, only two companies offered the desired data. Both were contacted, only one was willing to provide the raw data for the organization to do its own analysis. The other provider did not see a benefit to offering this service, since they had additional services they provided for analysis and this would limit the financial impact on their company. The organization has since combined the services of 3 companies that have increased the resources available to the industry at a significantly reduced cost rather than using exclusively the provider who did not want to sell the raw data. Although, a formal written review was not completed, a detailed analysis of cost-benefits was completed prior to selecting vendors.
    - b. We are currently conducting an RFP (Request for Proposal) for the 2009 season.
  - The Agreement, acting as an agent for the CPMB, does not have full accountability over its research grants. The funding paid to researchers is based on an invoice, and the final payment is paid when the final research report is completed. The Agreement does not require the grantees to provide progress reports or a final accounting over the grant money awarded them. Timelier oversight by the Agreement would help ensure that the all amounts paid for research were used for their intended purposes.
    - a. The Agreement will work with research grants and grantees to attempt to obtain additional financial information. Within the UC system, this could be difficult. Many research projects are funded by multiple groups and final details per funding source is a challenge. When the projects are presented to the Boards for funding a detailed accounting is provided at that time. We do receive progress reports on all our research projects.
-

## KEY RECOMMENDATIONS

1. *The Marketing Boards should ensure the Agreement improves its internal controls over the business use of credit cards by its employees.*
  - a. All purchases with the company credit card will require a purchase order form to be completed and signed by the CEO/President. This will be implemented May 1, 2009.
2. *The Marketing Boards should ensure the Agreement requires its employees with the Agreement issued credit card to support all charges incurred with an itemized receipt. The receipt should be maintained within the credit card file. Charges for lodging or meetings should include documentation listing the guests who attended and the business purpose of the event.*
  - a. This has been addressed in the updated policy manual. Itemized receipts, guest details and purpose of business are required. The policy manual will be presented to the Boards during the April 30, 2009 meetings for approval\*.
3. *The Marketing Boards should require the Agreement to obtain itemized receipts for all expenses, including business meals, to ensure expenses are adequately supported. Documentation for business meals should list the guests who attended and the business purpose of the meal.*
  - a. This has been addressed as stated above.
  - b. Although receipts were present for most of the expenses, itemized receipts had not been required. This will be updated and addressed in our updated policy manual.
  - c. In reference to the 3 instances of “high” hotel rates, an analysis was completed at the time of booking the meeting space and rooms. It was determined the smaller hotel, where 2 of the rooms were at higher rates, was more economical since they did not charge meeting room space or internet charges. Although, the larger hotels in the area had a lower cost room rate, they had significant meeting room charges. Based on the total expenses for the meeting being lower, the smaller hotel was selected resulting in a couple of higher room rates.
  - d. In reference to an employee being reimbursed incorrectly for an item on the company credit card, this has been rectified and the amount repaid.
  - e. In reference to the unused airline ticket purchases, there was a business conflict and the original tickets could not be used. These tickets were not refundable.
4. *The Marketing Boards should ensure the Agreement thoroughly reviews expenses prior to payment, to avoid potential overpayments. Additionally, employee expense claims should be thoroughly reviewed to ensure the claim complies with the travel policy prior to reimbursement. Furthermore, policies should be in place to ensure an employee does not sign their own check.*
  - a. All expense forms will be reviewed and approved by the employee’s supervisor. The Controller will review all expense requests prior to processing to ensure appropriate detail and charges are accounted for.
  - b. There have been no instances of employees signing their own checks after January 2007. The circumstances that this had occurred were uncontrollable. There were no authorized signors in the office when the checks were cut or within a reasonable amount of time to wait for signature. We have worked to ensure this situation does not occur in the future.

5. *The Marketing Boards should ensure the Agreement, on their behalf, only incurs expenses necessary to support their mission. Personal expenditures should not be allowed in any instances.*
  - a. All staff activities that had previously been approved by the Executive Committee have been halted. Performance related incentives were discontinued in April 2008. New alcohol related policies and updated travel policies, based on the Marketing Branch guidelines have been added to the policy manual that will be presented to the Executive Committee June 17, 2009 for approval.
  - b. Prior to November 2008, CDFA had not made the Agreement aware of any alcohol related policies.
6. *The Marketing Boards should determine the amounts spent on personal expenses by employees and seek reimbursement for these amounts.*
  - a. Personal expenses have been identified; to the best of our ability, and reimbursement have been made.
7. *The Agreement should seek the necessary professional guidance to ensure it is properly reporting and documenting all expenses incurred by its employees for the business use of their automobile.*
  - a. The Agreement will base all guidance for proper reporting and documenting of automobile expenses on the current IRS guidelines.
8. *The Agreement should document the basis it used to determine the monthly auto allowance amounts it provides to its employees.*
  - a. The Boards' bylaws provide for a mileage rate as established by the IRS on a yearly basis or as recommended by the Executive Committee. The Chairperson of the Executive Committee will sign a document outlining any approvals the Committee makes. This document will be filed appropriately by the Controller.
9. *The Marketing Boards should ensure the Agreement has written contracts for all services. The written contract should identify the parties involved; outline the terms for performance, payment, and scope; and be signed by both parties to mitigate any disputes.*
  - a. Updated contract policies have been added to the policy manual that will be presented to the Boards during the Executive Committee June 17, 2009 for approval. Signed contracts will be required.
10. *The Marketing Boards should ensure service contracts are competitively bid in compliance with the public contracts code.*
  - a. Request for Proposals (RFP's) have been completed for the data providers. Recommendations were presented to the Domestic Market Development Subcommittee and approved in April 2009.
  - b. In the instances referenced in the report, if two vendors were offering comparable services, both were contacted for bids. One of the two did not feel they wanted to participate. In the case where vendors were difficult to locate for desired services, staff polled other Boards and Commissions for suggestions. These suggested vendors were then contacted, in some cases there was only one known vendor offering the desired service. Although, a formal written review was not completed, a detailed analysis of cost-benefits was completed prior to selecting vendors.

*11. The CPMB should ensure the Agreement improves its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*

- a. The Agreement will work with research grants and grantees to attempt to obtain additional financial information. Within the UC system, this could be difficult. Many research projects are funded by multiple groups and final details per funding source is a challenge. When the projects are presented to the Boards for funding a detailed accounting is provided at that time. We do receive progress reports on all our research projects.
-

### **CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of California Plum Marketing Board and California Tree Fruit Marketing Board, for its review and response. We reviewed the response and it satisfactorily addresses the findings in this report.

### **DISPOSITION OF AUDIT RESULTS**

The findings in this report are based on fieldwork my staff performed October 27, 2008 through December 5, 2008. My staff met with management on December 4, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the Marketing Boards for their review and action if necessary. However, this report is public document and its distribution is not restricted.



**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	Chairman, California Plum Marketing Board
1	Chairman, California Tree Fruit Marketing Board
1	Chief Executive Officer, California Tree Fruit Marketing Agreement
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office